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CANADA'S OIL EXPLORERS HEAD NORTH AND SOUTH

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Canada's oil explorers head north and south

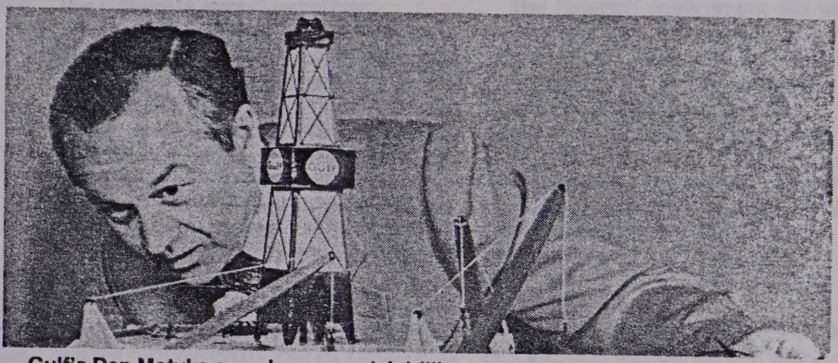
The National Energy Plan prompts a move away from the western provinces

Since it was announced a year ago Ottawa's National Energy Plan has wrought major changes in the pattern of oil exploration and development by Canadian companies. The NEP provides the federal government with a larger slice of the country's energy revenue pie, while reducing the share that goes to industry and the provinces; as a result, many Canadian oil and gas producers have forsaken the petroleum-rich western territories and moved south to operate in the US. Meanwhile, the attractive financial incentives the NEP offers for frontier exploration have prompted those firms remaining in Canada to move operations into the northern frontier regions.

The reduction of exploration and development in Alberta, where 85% of Canada's oil and gas is produced, is evidenced by the dramatic decline in sales of leases for the province's oil and gas lands. In the first half of 1981, 534,874 acres were leased – only half the area leased during the first half of 1980. And bids for the acreage that was leased were lower, resulting in smaller revenues for Alberta's provincial treasury. In the first half of 1980 such sales brought in C$591 million; this year the figure is only C$229 million.

The reduction in the number of leases sold in the western provinces was not unexpected. Immediately after Ottawa unveiled the NEP last October, several Canadian oil companies announced plans to move massive sums of exploration dollars south into the balmier economic climate of the US. Between November 1, 1980, and the end of August 1981, 155 drilling rigs had already left the country. The Canadian Association of Oilwell Drilling Contractors estimates that about 95 of these rigs came from the western provinces.

Industry analysts believe the exodus of drilling rigs and exploration capital from Canada is not a short-term trend. They acknowledge that some companies that planned to move operations to the US but have not yet done so may reverse their decision, as a result of the recent agreement between Alberta and Ottawa on energy pricing and revenue sharing. But they believe it will be at least two or three years before some companies that have already moved south return to Canada, because of the expense of establishing operations in the US.



Gulf's Dan Motyka examines a model drilling unit designed for the Beaufort Sea

Those companies that have decided to maintain exploration programs in Canada have begun to migrate toward the northern frontier regions to take advantage of the financial incentives offered by the NEP. These firms have also been in the forefront of the recent flurry of takeover activity in the energy sector: Since the amount of NEP incentives a firm receives depends on its degree of Canadian ownership, companies are eager to increase their Canadian holdings. Under the terms of the NEP's Petroleum Incentive Program (PIP), Ottawa is offering a matching grant of 80¢ for every exploration dollar spent in the frontier by Canadian-owned companies but only 25¢ for every dollar spent by foreign-owned firms.

Dome Petroleum was one of the first companies to make major changes as a result of the NEP. Last February it established a new subsidiary, *Dome Canada*, which is 75% Canadian-owned. The firm also acquired a 52.9% controlling interest in the Canadian company *Hudson's Bay Oil & Gas* (HBOG) during its takeover bid this spring for *Continental Oil Co.* (Conoco), HBOG's parent company. Dome has announced it will soon make a formal offering to HBOG shareholders to buy out the remaining shares.

Since both of its latest acquisitions are more than 65% Canadian-owned, Dome is now eligible for maximum grants for its exploration activities in frontier regions. The company has already spent C$500 million in the Beaufort Sea during the past five years, and has built up a large fleet of drillships and supply boats there. Dome's future frontier plans include completing construction of the world's largest "superdredger," at a cost of C$120 million, by 1984. The superdredger will be moved to the Arctic to build an artificial island over the Kopanoar well, a major discovery made in 1979. Other projects on Dome's drawing board include construction of a massive C$110 million icebreaker, capable of ploughing through 10 feet of ice, to be operational by 1983.

Recently announced programs in the frontier also number among them the Arctic Pilot Project and the Norman Wells pipeline project. The Norman Wells plan is actually two related projects – one by *Esso Resources Canada* to increase oil production from the Norman Wells Field in the North West Territories from 3,000 barrels a day to 25,000 bbd, and the other by *Interprovincial Pipeline* to build a pipeline to transport this additional crude from Norman Wells to Alberta. The Arctic Pilot Project calls for delivery of 250 million cubic feet of natural gas from the Arctic Islands by icebreaking tankers to southern Canada. Federally owned *Petro-Canada* is the project manager. Other participants include Dome, an Albertan firm called *Nova*, and *Melville Shipping*.

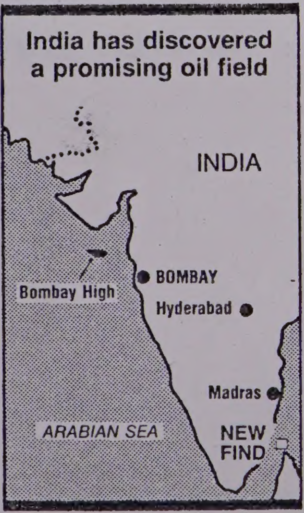
This frontier activity is just the be-

ginning of what the oil industry believes will soon be a stampede in the Arctic. Industry officials predict that 1985 will see Arctic exploration begin to build up the fever of a gold rush. Dome, Esso, and *Gulf*, the three major companies operating in the Beaufort Sea, foresee Dome's Kopanoar Field beginning production by 1986, followed by either Esso's Issungnak or Dome's Tarsuit Field in 1987. After that, the companies predict that a new field will be brought into production about every two and a half years.□

INDIA

Progress with indigenous fuel

India's energy planners recently received a double dose of good news. The government-owned Oil and Natural Gas Commission last month discovered a promising oil field in the undeveloped waters of the southern continental shelf, opening up a new offshore area for exploration and development. Meanwhile, production of coal, India's most plentiful indigenous energy resource, seems likely to exceed the annual output target set earlier this year by the Energy Ministry.



The oil field was discovered in the North Palk Strait between the southern Indian state of Tamil Nadu and Sri Lanka. Although India has found a number of offshore fields since exploration activity began eight years ago, the latest discovery is the first to be made in any area other than the western continental shelf, offshore from Bombay. Indeed, all of India's current oil production of about 52 million barrels annually comes from the Bombay High Field, developed in cooperation with *Compagnie Francaise des Petroles*, on the western continental shelf.

Preliminary estimates suggest that the oil field will turn out to be a major discovery. The first well drilled is now yielding a promising 1,500 barrels of crude oil a day through natural flow alone. Two more assessment wells must be drilled before the exact size of the field can be determined. But the Oil and Gas Commission is confident that the find will yield crude in commercial quantities.

The oil field is the first major discovery made by the Oil and Gas Commission since India launched a $5 billion, five-year program to boost domestic oil and gas production last May (*WBW*, May 25). The program is designed to trim the country's crippling oil-import bill. India will this year import about half its total oil requirements, or some 117 million barrels, at a cost of about $6.5 billion. This could eat up 70% of the country's export earnings.

As part of the petroleum-development program, the Indian government has been actively encouraging foreign investment in oil exploration. After inviting tenders for exploration in blocks both on- and offshore earlier this year, the Oil and Gas Commission has narrowed the list of applicants to 12 foreign oil companies and is currently reexamining these bids. However, all of the tenders are for blocks in the western continental shelf. If the new discovery in the southern continental shelf proves commercially viable, future bids can be expected to include this area.

But India has not centered all of its energy hopes on the prospects for increased oil production. The government has ambitious plans to raise domestic coal output as well. India has proved coal reserves totaling 24.6 billion metric tons, and an additional 85 billion tons are thought to be in the ground – making coal the country's key indigenous fuel. Preliminary estimates of coal production for this year indicate that the efforts to accelerate development of this resource have been even more successful than the government planned.

According to the Energy Ministry, coal output for fiscal 1981 will be 124 million tons, or at least 3 million tons higher than was originally forecast. This would represent a significant improvement over last year's production of 114 million tons. The most recent production figures support the revised estimates for 1981's output: Between April and August this year India produced 3.7 million tons more of coal than it did during the same period in 1981. Output during fiscal 1980 was itself something of a breakthrough, because prior to last year India's coal production had stagnated at about 100 million tons annually for more than a decade.□

IN BRIEF

Phillips drops a Nigerian gas project

Phillips Petroleum, the technical leader of a six-company consortium that is developing a liquefied natural gas (LNG) industry in Nigeria, has decided to withdraw from the $14 billion project. The decision places a question mark over the timetable for the venture, which was supposed to come on stream in the mid-1980s but has been delayed by financing problems.

The Nigerian government still intends to proceed with the project, and it has begun negotiations with the four European companies in the consortium "with a view to appointing new technical managers and operators." *Bonny LNG*, the consortium company, is 60% owned by the state-run *Nigerian National Petroleum Corp.* The other partners are *Royal Dutch/Shell* and *British Petroleum*, each with a 10% share; Phillips and *Agip*, each with a 7.5% stake; and *Elf Aquitaine*, which holds 5%.

The plan has been for Bonny LNG to process and market up to 2 billion cubic feet of gas a day at a plant near Port Harcourt, using a liquefaction process developed by Phillips. Doubts about the project's future arose last January when the Nigerian government allotted only $492 million to it in the country's new five-year development program. But despite the financing difficulties, plans for the project proceeded.

The Nigerian government is considered likely to ask either Shell or Elf to take on technical leadership because both companies have experience in LNG development. Elf and Agip are expected to take over Phillips' shareholding. The American firm gave no reasons for its decision to withdraw from the project.

France's North Sea dispute ends

Britain has ended a North Sea development dispute with France's two leading oil companies, *Total* and *Elf Aquitaine*, by including them in the award of 11 new offshore oil-exploration and production licenses. The government had refused to grant any licenses to the two companies until they agreed to transport gas from their Alwyn Field discovery through Britain's proposed North Sea gas pipeline.

When plans for the new gas system fell through last month, Britain withdrew its demand. The end of the dispute cleared the way for the award of seven North Sea licenses involving Total and Elf, as well as four other licenses delayed for different reasons. The British government is now also expected to approve the French firms' development plan for Alwyn. Under the plan, any gas produced from the field is to be fed into an existing pipeline running from the nearby Frigg Field.